

VZCZCXRO1337
PP RUEHGR
DE RUEHSP #0374/01 0831916
ZNR UUUUU ZZH
P 241916Z MAR 06
FM AMEMBASSY PORT OF SPAIN
TO RUEHC/SECSTATE WASHDC PRIORITY 6600
INFO RUEHKO/AMEMBASSY TOKYO 0070
RUCNCOM/EC CARICOM COLLECTIVE

UNCLAS SECTION 01 OF 02 PORT OF SPAIN 000374

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E.O. 12958: N/A
TAGS: [EINV](#) [PGOV](#) [KCOR](#) [TD](#)
SUBJECT: TRINIDAD GOVERNMENT ALLEGES CORRUPTION IN
AWARD OF DESALINATION PLANT CONTRACT TO U.S. INVESTOR

REF: POS 239

11. SUMMARY: The Attorney General of Trinidad & Tobago has declared that a water supply contract with desalination company Desalcott, in which GE has a 40% stake, should be terminated due to fraudulent and corrupt dealings in its negotiation during the late 1990s. The announcement came as the GOTT water utility lost its arbitration case to Desalcott, and follows similar actions involving major contracts that were concluded when the opposition party was in power. It is unclear whether charges/indictments will follow the statement or if it is only pre-election posturing. End summary.

12. In a statement that could have ramifications for a major U.S. direct investment in Trinidad & Tobago, Attorney General John Jeremie announced in Parliament on March 14 that the contract for supply of water by Desalcott to state utility WASA should be voided because of alleged corruption and bribery in its late 1990s negotiation. The announcement, which provoked headlines like "Government Dumps Desalcott Deal" and "Top Officials to be Charged," caused a flurry of reactions from Desalcott and opposition political figures like Ganga Singh, United National Congress (UNC) whip in the lower house of parliament, who was minister for public utilities when the contract was negotiated. Singh denounced Jeremie's speech as a witch-hunt, and stood by the decision for the desalination plant.

The case so far

13. Desalination Company of T&T (Desalcott) is a private company, 60% owned by T&T firm Hafeez Karamath Engineering Services, Ltd., and 40% owned by U.S. company Ionics (since February 2005 part of GE). Desalcott began producing desalinated fresh water in April 2002 under a 20-year contract to sell water to the Water and Sewerage Authority (WASA) for resale to petrochemical and other industrial companies in the Point Lisas industrial estate. In April 2003 Desalcott sought a price hike in accordance with terms of the water services agreement. WASA had a differing interpretation of the agreement terms, and when yearlong mediated discussions between Desalcott and WASA failed to find a solution, the matter moved to dispute resolution in the International Chamber of Commerce (ICC) in London. That process began around June 2004 and ended with an arbitration decision this month that largely favored Desalcott.

14. It was about one day after the ICC panel revealed its decision that Jeremie made his statement in

Parliament. The GOTT claims that a recently completed report, which it commissioned from forensic investigator Bob Lindquist of Citigate Global Intelligence, concluded that the contract that the previous United National Congress (UNC) government awarded to Desalcott in 1999, involved fraud and bribery. That report is not a public document, and GOTT has not revealed many details other than to suggest that a foreign national could be among those subject to extradition requests. No local officials, apart from Singh, have been implicated thus far either.

Witch-hunt or Anti-Corruption zeal?

¶5. The GOTT assertions come in the midst of a highly charged political atmosphere in which the ruling Peoples National Movement (PNM) has accused the opposition UNC of having made poor (if not outright corrupt) decisions during its term in office, which ended in 2001. There are several pending or ongoing legal cases involving UNC officials. Among them are the following:

-- Piarco Airport - More than a dozen businessmen (including at least two Floridians) and UNC officials have been served with charges of bid rigging and other corrupt dealings with construction of the airport terminal, which then prime minister Basdeo Panday opened in 2000. No cases have come to trial

-- Panday bank case - the former prime minister went on trial this month for having misrepresented his assets

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while prime minister. The chief charge is failing to declare details of an account with Natwest bank in London.

-- Calmaquip - the Florida-based company, whose CEO Raoul Gutierrez is one of those accused in the Piarco case, saw its service contract with the Airports Authority canceled this week.

¶6. For its part, the opposition UNC has attempted without much success to deflect corruption allegations by laying corruption charges on the ruling PNM. The Desalcott announcement, in fact, came during a parliamentary debate in which a UNC MP sought to raise the issue of the long-stalled Scarborough Hospital construction project and a Tobago real estate development called Landate that involves Minister of Housing Keith Rowley.

GE and Desalcott reactions

¶7. Officials of Ionics/GE have briefed Ambassador on several occasions since 2003, most recently in January when it was seeking to settle with WASA and avoid an arbitration decision that GE believed would sour relations and set the stage for a future dispute. Ambassador raised the issue with Energy Minister Lenny Saith (reftel), who recently had become involved and whom GE believed was interested in reaching a settlement (the line ministry for WASA is Public Utilities).

¶8. GE executives we have spoken to believe that the timing of Jeremie's declaration suggests that GOTT is seeking to save money on the decision of the arbitrator, which will impose a decision in 30 days if the parties are unable to do so. He was not sanguine that such an agreement was likely if a year of

mediation, followed by more than two years of arbitration failed to do so.

¶9. Econ Chief asked GE about media reports that suggested that GOTT was looking to extradite a foreign national in connection with the case. GE says it is sure the suspect is not one of the company's employees. Our contact thought that the individual could be an Israeli. We spoke with Desalcott officials who said a former UN employee, now working for the Israeli government, was an adviser to GOTT on the project in the late 1990s.

¶10. Desalcott has not received anything official from GOTT on this matter other than an indication from WASA that it will continue to purchase water from the company. A company official told Econ Chief that the contract was reviewed by OPIC before it was implemented, and that GOTT has the right to purchase the company if fraud is proven. A coordinating committee representing all sides is supposed to reach agreement; failing that, dispute settlement proceedings would occur. An ultimate settlement would be several years off in view of the pace of Trinidadian jurisprudence.

¶11. Karamath, the majority local partner of GE in Desalcott, has stayed largely out of public view. His company is one of the four or so major contracting firms in T&T, and he reputedly is well connected on both sides of the political aisle. WASA previously sought to buy him out, according to Desalcott officials, but terms could not be reached.

¶12. COMMENT: It is unlikely that GOTT would seek to seize Desalcott; even Jeremie stated merely that GOTT had the right under the contract to purchase Desalcott. It is less clear what amount of compensation would be paid if litigation proved necessary to establish that amount. The issue may even fade or remain as a cloud over the UNC as the date nears for general elections, which must be held within the next 18 months. Post remains in active contact with GE, and will be vigilant to any GOTT action that might deprive GE of its investment without proper compensation.

AUSTIN